

NEIGHBOURING COUNTRIES ECONOMIC DEVELOPMENT COOPERATION AGENCY

No. 83/2017

17 July 2017

Company Rating: AAA**Outlook:** Stable**Rating Rationale**

TRIS Rating assigns the company rating of Neighbouring Countries Economic Development Cooperation Agency (NEDA) at “AAA”. The rating reflects NEDA’s status as a Thai government body, carrying out government policies concerning economic development cooperation with neighbouring countries, with on-going financial support from the government in the form of subsidies as part of its ordinary course of operation. In TRIS Rating’s opinion, the likelihood of NEDA receiving extraordinary support from the government in the event of financial distress is a near certainty.

NEDA was established on 17 May 2005 under the Royal Decree on the Establishment of Neighbouring Countries Economic Development Cooperation Agency, B.E. 2548. The legal form of NEDA is a public organisation which, according to the Public Organisation Act, B.E. 2542, has its organisational objective as providing public services that are not primarily profit-driven. NEDA’s objectives are primarily to provide neighbouring countries and other countries with financial and technical assistance and to promote joint economic development with these countries. Financial assistance is typically in the forms of soft loans, interest rate subsidies, and grants to fund basic infrastructure projects, which are not commonly offered by other state enterprises or private entities.

Structurally, NEDA is under the supervision of the Ministry of Finance (MOF). Functionally, it operates under the directives of the Neighbouring Countries Economic Development Cooperation Board (NEDB), whose members are representatives from the government agencies that are directly involved in joint economic cooperation with neighbouring countries. NEDA may engage only in transactions that are part of economic cooperation schemes agreed by the government, with NEDB overseeing implementation. NEDA primarily relies on government subsidies to fund its operations. As the financial and technical assistance to neighbouring countries are provided on a non-commercial basis, and it is not designed to engage in profit-driven transactions, NEDA is not designed to financially operate on its own independence from the government. Although the government does not provide guarantees to back up its obligations, NEDA’s debt constitutes part of the country’s public debt. All of NEDA’s borrowings require approval from the government.

From its inception on 17 May 2005 until 30 September 2015, NEDA has carried out 21 financial assistance projects, 16 technical assistance projects, and 27 training courses to recipient countries. The total cumulative expenditure, including loans during the mentioned period, totalled Bt14,482.39 million. As of September 2016, total loans plus accrued interest were Bt7,498.76 million, growing at a compounded annual growth rate (CAGR) of 12.5% for the past five years. Total funding was Bt7,922.41 million, a CAGR of 7.4% for the same period.

The government subsidies are treated as revenue in NEDA’s profit and loss statement, representing 90% of total revenue for the 2016 fiscal year (FY). Their share has remained consistently above 80% over the past five years. Net interest income was 10% of total revenue during FY2016. Major expenditures are financial grants and expenses from providing technical assistance. As a non-profit organisation providing grants and low interest rate soft loans, NEDA is not

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expected to generate any profit. Because of the accounting treatment of government subsidies as revenue, NEDA did report substantial net profit each year. The government subsidies covered not only the expenses related to grants and below-market lending rates, but also part of the loan principals. For that reason, NEDA reported uncharacteristically high profitability. For instance, NEDA's return on average assets (ROAA) was 9.5% in FY2016 compared with around 1.3% by the commercial banking industry in 2016.

NEDA has not experienced any loss from its loan extensions to the governments of neighbouring countries and has never set loan loss provisions against its exposure to these sovereign credits. However, from a loan portfolio point of view, NEDA is seen as having concentrated exposure to the government of the Lao People's Democratic Republic (PDR), representing around 90% of total loans. Loans to the government of Cambodia were approximately 10% of the total. These are all long tenor unsecured loans, with principal repayment periods ranging from 20-30 years and fixed lending rates of not more than 2.5% per annum (p.a.). NEDA also faces significant interest rate risk due to the duration mismatch between its long tenor loan assets and medium-term borrowings. This is still not considered a major issue as borrowings represent a small portion of NEDA's total funding. To manage the potential rise of interest rate risk in tandem with its plan to increase borrowings in the future, NEDA is looking to raise long tenor, fixed-rate funding in the domestic capital market.

NEDA has very little debt at present, but is expected to shift its funding policy from heavily relying on government subsidies to giving more weight to public borrowings. NEDA has funded the majority of its loans with government subsidies. The equities to total assets were 90% at the end of September 2016. The remaining 10% were debt funding, largely comprising loans from special-purpose financial institutions (SFIs) and a commercial lender. However, the leverage ratio is expected to rise over the medium term as NEDA plans to increase its public borrowings.

The liquidity ratios of NEDA are below the average of commercial lending institutions and are expected to remain so over the next few years. The liquid assets to total assets were 5.38% as of 30 September 2016, significantly below the average among non-bank financial institutions. However, given its highly predictable cash flows, NEDA may not need to maintain a liquidity cushion at the same level as required by commercial lending institutions. Notwithstanding the above, the liquid assets are assessed to be sufficient to cover financial obligations matured within one year over the next few years, thanks to the flexible repayment terms of these obligations. In addition, NEDA can obtain government funding from the MOF as a source of liquidity.

Rating Outlook

The "stable" rating outlook reflects the expectation that NEDA will maintain its status as a public organisation under the law and continue its role as a government body, carrying out the government policies with on-going financial support from the government as needed.

The credit rating and/or outlook of NEDA could change if our view on the importance of NEDA's role in relation to the government's foreign economic policy or the support it receives from the government changes.

Neighbouring Countries Economic Development Cooperation Agency (NEDA)

Company Rating:

AAA

Rating Outlook:

Stable

Financial Statistics

Unit: Bt million

	----- Fiscal Year Ended 30 September -----				
	2016 ¹	2015	2014	2013	2012
Total assets	7,936	7,252	6,888	6,762	6,234
Average assets	7,594	7,070	6,825	6,498	5,993
Investment in securities	101	138	691	1,544	1,598
Loans and receivables	7,499	6,748	5,685	4,887	4,412
Borrowings and interest payables	792	830	848	849	696
Shareholders' equities	7,134	6,414	5,966	5,745	5,277
Average equities	6,774	6,190	5,855	5,511	5,148
Total revenue	1,033	755	585	701	523
Net interest income	103	97	107	113	103
Revenue from government subsidies	929	656	475	586	421
Gains (losses) on investment in joint ventures	(2)	(3)	0	0	(1) ²
Other operating income	4	5	3	2	0
Expenses related to grants, subsidies and technical assistance	253	241	304	184	221
Operating expenses	60	67	60	49	46
Net profit	720	448	221	468	256

¹ Based on unaudited financial statements

² Loss from sale of assets

Key Financial Ratios
Unit: %

	----- Year Ended 30 September -----				
	2016 ¹	2015	2014	2013	2012
Earnings					
Return on average assets	9.48	6.33	3.24	7.20	4.28
Return on average equities	10.63	7.23	3.77	8.49	4.98
Interest spread	1.29	1.33	1.55	1.67	1.64
Net interest margins	1.35	1.37	1.56	1.75	1.72
Government subsidy/total revenue	89.91	86.86	81.30	83.55	80.42
Net interest income/total revenue	98.36	97.25	97.51	98.28	100.57
Gains on trading/total revenue	(1.95)	(2.55)	0.00	0.00	(0.74)
Other income/total revenue	3.59	5.30	2.49	1.72	0.18
Operating expenses/total revenue	5.77	8.86	10.23	6.96	8.73
Capitalisation					
Shareholders' equity/total assets	89.89	88.44	86.61	84.96	84.65
Shareholders' equity/total loans	95.47	95.38	105.29	117.92	120.30
Funding & Liquidity					
Total loans/total assets	94.15	92.73	82.26	72.04	70.37
Liquid assets/total assets	5.38	6.76	17.14	27.39	28.90

¹ *Based on unaudited financial statements*
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